Understanding Municipal Securities Regulations
GASB 43/45 - Actuarial OPEB Valuations

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A MILLIMAN GLOBAL FIRM

Milliman

Consultants and Actuaries

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Agenda

- OPEB Valuation Process
- Recent Studies

OPEB Valuation Process

How Valuation Works

- Gather data, plan provisions
- Select Actuarial Assumptions
- Project active and retiree population
  - Turnover, expected retirement age
  - Life expectancy
  - Current employees and retirees only
- Project annual claims costs
  - Current year
  - Trend for medical inflation in future years
- Project expected retiree payments

How Valuation Works

- Discount payments to today's dollars
- Allocate costs to periods of service

Definitions

- Present Value of Benefits
  - Discount expected payments using interest rate to today's dollars
- Actuarial Accrued Liability
  - PVB attributed to past service only
- Normal Cost
  - Portion of PVB attributed to current year of service only
- Actuarial Cost Method
  - Allocates PVB costs to past, present, and future
- Annual Required Contribution
  - Normal Cost, plus
  - Amortization of UAAL up to 30 years

Assumptions

- Make predictions about the future
- Best estimates based on recent data, plan design, actuarial judgment
- Plan sponsor and auditor must accept assumptions used for GASB reporting

Assumptions

- Demographic assumptions
  - Turnover, retirement, mortality, spouse coverage
- Economic Assumptions
  - Discount Rate
    - Based on expected return of assets set aside to pay OPEB benefits
    - Results very sensitive to selection of rate
  - Salary scale

Assumptions – Claims costs

- Claims Costs
  - Account for higher costs for retirees who are older than actives *unless* premiums are community rated
- Medical Trend or Inflation
  - Short term
  - Long term
  - Consider other OPEB

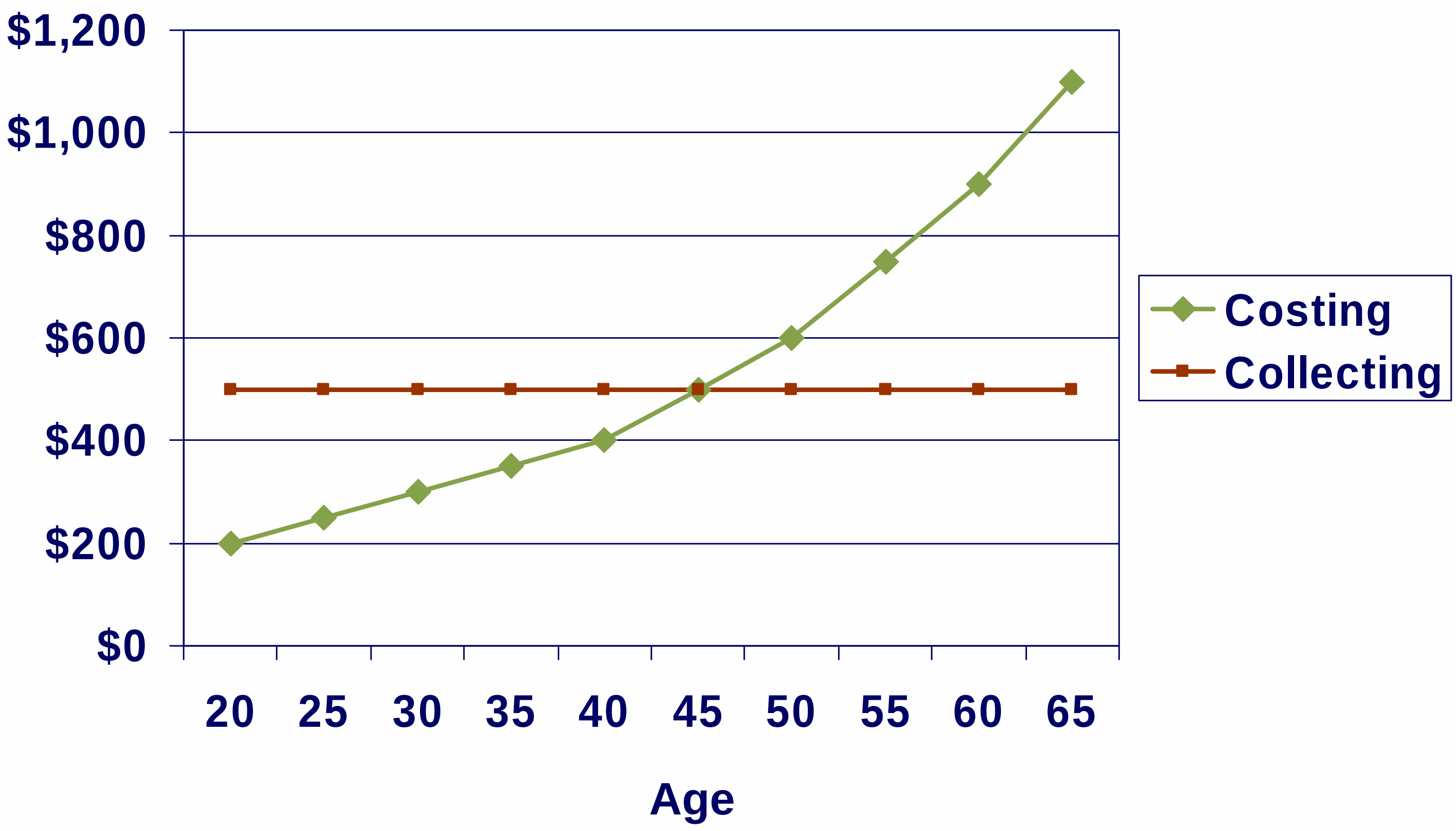
Actuarial Cost Methods

- Six allowable cost methods
- Can allocate costs as level dollar or level percentage of payroll
- Regardless of method selected, the overall costs will be the same, only the pattern of cost accruals will be different

Implicit Rate Subsidy

- Charging pre-Medicare retirees the rate that the employer is charged for the active members
- Collecting an average rate, but true incidence of cost is different
- Retirees cost more than actives because they are older
- Employers are “implicitly” subsidizing the retiree rate
- Part of what employers are paying actives is really for retirees
- GASB wants a proper accounting of this hidden subsidy (implicit rate subsidy)

Implicit Rate Subsidy



Financial Statement Items - Recap

- **Annual OPEB Cost**
  - **(Income Statement)**
  - **= Annual Required Contribution (ARC)**
  - **Adjustments if employer has net under or over contributions**
- **Net OPEB Obligation**
  - **(Balance Sheet)**
  - **Cumulative Total of Annual OPEB Costs less contributions to fund OPEB liabilities**
- **Disclosures**
  - **Actuarial Liability, Funded Status**
  - **Plan provisions, assumptions, and methods**

Recent Studies

Questions?

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